CDFIs Leverage CDFI Program Awards Nearly $20 to $1!

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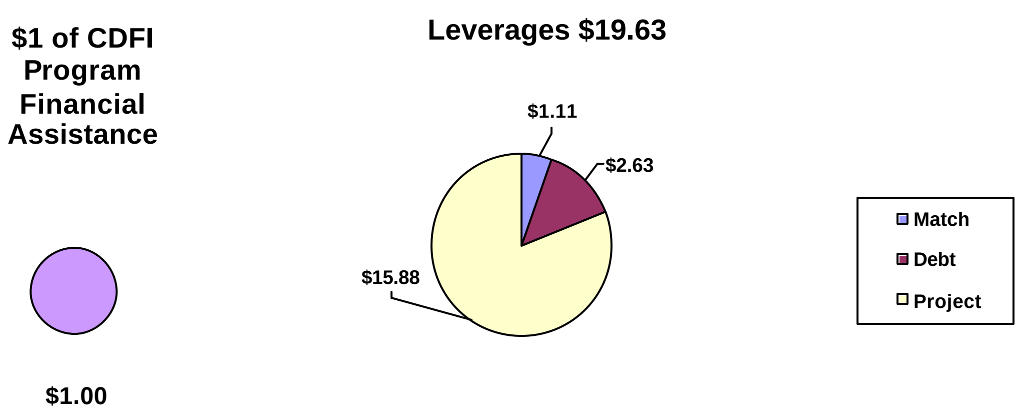
CDFIs can provide a huge "bang for the buck" when it comes to federal government investments. Based on the most recent data available, the CDFI Fund estimates that CDFI Program awardees leverage each Financial Assistance Component award dollar with $19.63 in private and non-CDFI Fund public dollars, thereby providing the federal government a much greater return in community development outcomes than the government's investment dollars could provide on their own.

CDFIs are very efficient at leveraging and do it in three ways.

First, the CDFI Fund requires CDFIs to match their Financial Assistance Component awards one-to-one with non-federal funds.[1]

Second, CDFIs leverage their net assets (or equity) by borrowing against them, providing CDFIs with larger amounts of capital to invest in communities.

Third, CDFIs leverage other funds at the project level. Many of the loans that CDFIs make finance a portion of a project's total cost. For example, a real estate construction project typically has multiple sources of debt and equity financing to cover the cost of the entire project. These other sources may include banks, local or state governments, private investors and the borrower's equity. Project leverage is the amount of non-CDFI Program awardee dollars that go into the projects financed by the awardee.



[1] Not all FA Component award dollars are from funds appropriated directly to the CDFI Fund. Approximately 10 percent of a loan award is made up of dollars the CDFI Fund borrows from the Federal government through its borrowing authority. The required $1 to $1 match on FA Component awards equates to a $1.11 to $1 match on appropriated funds ($1 match / $.90 appropriated funds = $1.11).

Project level leverage ratios vary considerably by loan purpose. Real estate loans tend to have higher leverage rates. The highest median project level leverage ratios, for instance, are for multi-family rehabilitation (8.53:1) and construction (5.35:1); the lowest are for business loans (.6:1 for fixed asset and .81:1 for working capital). These findings are consistent with what we know about these types of financing deals. Complex deals where a CDFI is one of many partners and is a relatively small partner, generate high leverage for the money the CDFI brings to the deal. Simple deals, where a CDFI is the sole or largest investor, generate little or no leverage to the financial resources a CDFI invests in the project. Real estate deals tend to be large and complex, with multiple sources of private and public funding combining to finance the full cost. Business deals tend to be smaller and simpler, with far fewer financing sources. In fact, 29 percent of the CDFIs reporting project leverage data for fixed asset loans and 22 percent of CDFIs reporting project leverage data for working capital loans were the sole source of financing for the deals they supported.

In the purest form, leverage means using a dollar to obtain more dollars. There is a cause and effect relationship: if the first dollar was not available, the additional dollars would not become available. When calculating the leverage of CDFI Program awards, the CDFI Fund does not assume this cause and effect relationship, because it is very difficult to verify. For example, matching funds may or may not be a direct result of the CDFI getting a CDFI Program award. Even if a private donor sent a CDFI a "conditional approval letter" stating that a donation is approved contingent upon the CDFI receiving a CDFI Program award, it is not possible to definitively prove that the donor would not have made the donation even if the CDFI Fund did not provide the full award amount. Likewise, at the project level, it is not always possible to verify that the CDFI's financing in a project led to the participation of other lenders and investors. For example, a CDFI provides subordinate financing in a deal. This lowers the risk of other lenders' senior position loans. However, absent interviews with the other lenders and a careful analysis of the history of the deal, one cannot conclude that the senior loans would not have been made if the CDFI had not provided the subordinate financing. For both matching funds and project level leverage, the CDFI Fund's methodology may therefore overestimate actual leverage.

On the other hand, the CDFI Fund may underestimate debt leverage. If a CDFI receives a CDFI Program grant or equity investment in the final months of its fiscal year, it may not be able to raise additional debt against these net assets before the end of the fiscal year. In this case, the debt leverage figure will be underestimated: several months into the new fiscal year, it could jump significantly if the CDFI secured new debt. The underestimation may be relatively large depending on the amount of the CDFI Program award.

Below are two charts. The first shows the CDFI Fund's leverage calculation. The second shows project level leverage ratios by loan purpose data

Leverage Calculation[2]

Required Matching Funds[3]	
FA Component Appropriation	$ 15,586,111
CDFI Fund Borrowing Authority	$ 1,731,790
Dollars Available to be Leveraged (total FA disbursements)	$ 17,317,901
Matching Funds Leveraged ($1:$1)	**$ 17,317,901**
Debt Leverage	
Grant and Equity portion of FA disbursements	$ 14,542,901
Corresponding Matching Funds	$ 14,542,901
Total Dollars Available to be Leveraged	$ 29,085,802
Average (Liabilities / Net Assets)	1.41
Debt Leveraged	**$ 41,064,415**
Project Leverage	
Dollars Available to be Leveraged (total FA disbursements + matching funds + debt leveraged)	$ 75,700,217
Average [(Total Project Cost - Awardee Project Financing) / Awardee Project Financing]	X 3.27
Project Leverage	**$ 247,549,979**
Total Leverage	
Total Dollars Leveraged	**$ 305,932,294**
Leverage Ratio[4]	**19.63**

[2] Based on FY 2003 CIIS data submitted by 23 CDFIs.
[3] Not all FA award dollars are from funds that are directly appropriated to the CDFI Fund. Approximately 10 percent of a loan award is made up of dollars the CDFI Fund borrows from the Federal government through its borrowing authority.
[4] The leverage ratio is calculated using the appropriated FA dollars only ($305,932,294 / $15,586,111).

Project Level Leverage Ratios by Loan Purpose

Loan Purpose	**# of CDFIs**	**Average[5]**	**Median**	**Minimum**	**Maximum**
Business Fixed Asset	38	1.90	0.60	0.00	12.91
Business Working Capital	45	1.92	0.81	0.00	15.67
Real Estate					
Commercial Construction	14	5.79	2.44	0.00	20.06
Commercial Rehabilitation	15	2.06	1.53	0.16	9.00
Multi-Family Housing Construction	19	16.97	5.35	0.00	79.00
Multi-Family Housing Rehabilitation	22	18.79	8.53	0.00	115.86
Single-Family Housing Construction	23	9.36	2.25	0.00	46.49
Single-Family Housing Rehabilitation	9	8.22	2.38	0.19	48.07
Home Purchase	17	2.90	0.84	0.00	15.01
Other	22	3.86	0.82	0.00	49.23
Total	87	7.26	2.14	0.00	115.86

[5] The average does not match the average used in the leverage calculation because only 23 of the 87 CDFIs in this table received award disbursements in FY 2003. The leverage calculation is based on these 23 CDFIs. (Source: FY 2003 CIIS data.)